



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 3/11/2004

GAIN Report Number: CH4804

China, Peoples Republic of

Market Development Reports

Suzhou: A Key Emerging City Market

2004

Approved by:

Ross Kreamer
U.S. Consulate

Prepared by:

Christina Wu

Report Highlights:

Suzhou is a key industrial center near Shanghai, with a population of roughly 2.3 million. Foreign direct investment has outstripped even Shanghai, making this one of China's fastest growing and wealthiest cities.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Shanghai ATO [CH2]
[CH]

Suzhou: An Emerging City Market Just a Hop, Skip and a Jump from Shanghai

Located about 100 kilometers (km) northwest of Shanghai, the municipality of Suzhou is one of the top-ten emerging city markets (ECMs) in eastern China. Suzhou today is a popular tourist destination. Renowned for its rich cultural history as the birthplace of many poets and philosophers, as well as for its gardens and scenic landscapes, Suzhou has in recent years become one of China's manufacturing platforms to the world. Extensive industrial zones lie on either side of the city. Suzhou has an average monthly temperature of 16.7C, reaching a high of 27.5C (Jul) and dropping to a low of 5.8C (Jan). Suzhou has a Mar-Aug rainy season.



For reporting purposes, a distinction is made between the municipality of Suzhou and the city of Suzhou. The municipality of Suzhou (formerly known as Suzhou Administrative Area) encompasses 8,500 sq. kms and includes neighboring towns and small cities, such as Kunshan, Wujiang and Changshu. Municipal Suzhou has a population of 5.9 million (2003). Unless otherwise noted, names and figures refer only to the city of Suzhou, which had a population of 2.3 million in 2003.

Foreign direct investment in manufacturing (\$4.8 billion in 2003) has fueled impressive rates of GDP growth. For 2003, Suzhou outpaced Shanghai in terms of FDI. Suzhou government's obsession with becoming a World Heritage town has attracted increasing numbers of both domestic and foreign visitors. International hotel chains and foreign-invested hypermarkets and other retail outlets have major plans for expansion in the next two years. This expansion, coupled with robust GDP growth (18% in 2003) will likely translate into opportunities for American food products. There is considerable room for growth in U.S. food products. Despite current limited availability, rising incomes, increased tourist arrivals, and the general pace of expansion in retail outlets portend a good future for imported food products.

Other nearby cities are also on the rise. Suzhou lies in close proximity to neighboring Nanjing and Wuxi, two other top-ten ECMs (based on per capita GDP) in Jiangsu province. Suzhou's average disposable income stands at RMB 10,515 (\$1,271). Jiangsu province ranks seventh nationwide in terms of per capita disposable income (RMB 8,178 in 2002). The 2003 Jiangsu Statistical Yearbook lists cost of living at RMB 6,043 (\$731), about 40% of which consumers spent on food.

Growing in Every Direction

A recent visit by ATO staff to Suzhou found signs of rapid growth, including major infrastructure projects, booming foreign direct investment, and increasing numbers of retail outlets. The ancient heart of Suzhou is sandwiched between industrial zones. Within the larger municipality of Suzhou



TABLE 1. Suzhou, Jiangsu province: Key Indicators, 2002	
Population	2.3 million (Suzhou city only) 5.9 million (municipality of Suzhou)
GDP	RMB 208 billion
Average GDP growth rate, 1998-2002	13.6%
Per capita disposable income	RMB 10,515 (Suzhou) RMB 8,178 (Jiangsu)
Key agricultural products	Silk, freshwater fish
Locally produced processed foods	Food additives, cookies, crackers, bakery products, processed meat, Chinese medicine
Major industries	Textiles; garments and other fiber products; electronic and telecommunications equipment; raw chemical materials and chemical products; and electric equipment and machinery

Source: ATO Shanghai, CFAS

there are at least three industrial zones: 1) Suzhou Industrial Zone on the eastern outskirts of the city; 2) Suzhou Singapore Industrial Park (SSIP) on the southeast; and, 3) Suzhou High-Tech Park on the southwest. These zones have a combined area of about 500 sqkm. Development at the SSIP has taken off after shares in the zone were changed to give local partnership a higher stake (65%, up from 35%).

Interviews with HRI managers confirmed the impression that huge amounts of investment have poured into the city in recent years. According to informants, as many as 90 of the Fortune 500 reportedly have a stake in Suzhou. Rapid growth of American firms has led to the formation of the Suzhou AmCham Committee, a subset of the Shanghai American Chamber of Commerce (AmCham). Suzhou offers less expensive cost structures than nearby Shanghai. Industries ranging from food processing and automotive parts to electronics and cosmetics all operate in Suzhou Industrial Zone. For example, U.S.-based Nabisco produces Keebler crackers in Suzhou. California-based Scholle Corporation, creator of the bag-in-box, recently opened a manufacturing and sales facility in Suzhou, the first of its kind in China. The plant will initially make bags for wine, post-mix fountain syrup, dairy products and processed food applications.

Currently, Suzhou has two major pedestrian malls (for retail and restaurants) known as Guanqian Street and Shilu Center, and a third is being built near Nan Men, or the South Gate (the remnants of the town's ancient walls). To accommodate increasing business and traffic, the government of Suzhou has implemented massive construction plans to upgrade road transportation. In addition to the 499 km. of roads that is scheduled for completion by 2008, Suzhou has also begun work on a light rail system, which is also due for completion in 2008. Designed by a French company, the Suzhou Rail Network will be 540 km. long and extend to the municipality's outer cities and suburbs.

Food retail in Suzhou is transforming fast

During the visit, ATO staff interviewed two major retailers in Suzhou: 1) Auchan, a French joint-venture hypermarket; and 2) Kedi, a Chinese-owned convenience store chain. Auchan also owns a share of RT-Mart, a Taiwanese hypermarket chain.

Auchan: Auchan opened its first hypermarket in Suzhou over four years ago using the same formula that had worked in Shanghai. This model assumed a substantial population of expatriates with western-style, large-volume shopping habits. However, a combination of factors including store location and local buying habits forced the store to rethink its strategy.

TABLE 2. Suzhou Retail Outlets: At a Glance			
Type of Retailer	Name of Retailer	Ownership	Number of Outlets
Hypermarket	Carrefour	French JV	1
	Auchan	French JV	1
	Beijing Hualian	Beijing Hualian	1
	Wu-Mart	Beijing Wu-Mart Group	1
	Trust-Mart	Taiwanese JV	1
	Fu-Mart	Taiwanese JV	3
	Huarun	Hong Kong JV	6
Supermarket	Lianhua	Shanghai Lianhua	28
	Huarun	Hong Kong JV	40
	Meihua	U.S. JV	70
Convenience store	C-Store	Taiwanese JV	10
	Kedi	Shanghai Bright Dairy Co.	65

Source: ATO Shanghai research

What worked in Shanghai did not work in Suzhou. Auchan's decentralized management structure is believed to have made the change in strategy easier. The store layout and product line were re-vamped to focus on local Chinese customers, with a stronger emphasis on big-ticket consumer items to generate foot traffic. One idea was to steeply discount the price of electric motorbikes. This resulted in huge visitor volume and in sales of motorbikes, which, in turn led to increased repeat visitor traffic and loyal customers. At present, Auchan Suzhou receives an average of 24,000-25,000 visitors each day, logging about 12,000 invoices. Traffic increases to an average of 30,000 visitors with 20,000 invoices on weekends. The recent Chinese New Year holiday traffic reached 60,000 daily customers and 32,000 invoices.

The Suzhou store currently has 9,000 sqm, with plans to expand to 15,000 sqm over the coming year. Food sales account for roughly 40% of total sales, but imports represent less than 0.01% of this total. Key imported products include frozen desserts and snacks (pizza rolls, etc.) from the U.S. and a large selection of imported wines and other spirits. Auchan reports that the Suzhou store actually has the third largest wine selection of any hypermarket in China (Carrefour stores in Shanghai's Gubei District and nearby Kunshan rank one and two, according to Auchan). French wines at the high end (750 RMB = \$95/750ml bottle) frequently sell out, indicating that consumers are prepared to spend more for prestige items. Auchan expressed a strong interest in working with ATO on promotions, particularly on U.S. wines. The company has plans to open additional stores across China, bringing the total nationwide to 12 by the end of 2004.

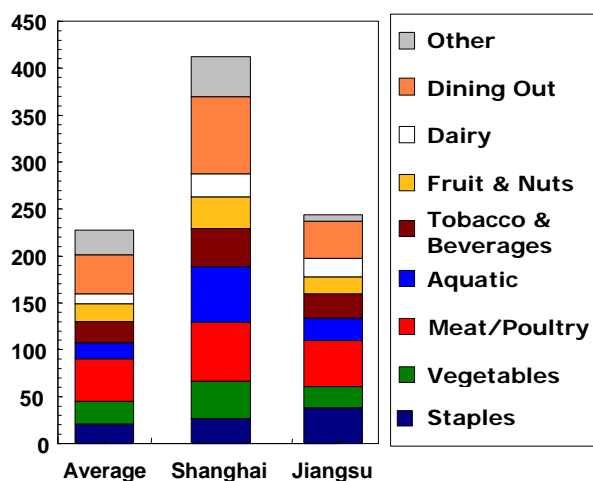
Kedi: Kedi is one of China's largest convenience store chains, and one of only two major chains present in Suzhou, along with C-Store (a unit of RT-Mart). Kedi currently has 65 stores in Suzhou, making it the largest convenience chain in the city. Foot traffic in a typical store amounts to 300-400 customers today, with a per person invoice in the range of 10-20 RMB, depending on location. Suzhou Kedi stores do not offer bill-paying services available in most Shanghai stores. Debit cards are an accepted form of payment. Kedi Suzhou management noted that product lines vary widely based on the location of the store and its local customer base. The outlet ATO visited is located on a street of cafes and bistros, so the highest volume item is cigarettes. Kedi also confirmed that imports constituted a very small proportion of the stocked items, mostly nuts and dried fruit. Like Auchan, however, Kedi showed a strong interest in expanding their product line to include more imported products. Suzhou's close proximity to Shanghai has enabled local Kedi stores to use the same supply

and distribution system that serves its Shanghai stores. The overall chain has expanded rapidly, and is now present in some 17 cities in East China.

Improvements in Food Processing are impressive

According to the store manager of Auchan, Suzhou's food processing sector has made great strides in recent years, particularly as a result of the local government's efforts during the national outbreak of SARS in 2003.

Urban food expenditures in RMB/capita, 2002



Source: China Statistical Yearbook, 2003

Increased investment and regulatory enforcement have raised standards.

During a walk-through of Auchan's 9000 sqm store ATO noted a wealth of processed products ranging from packaged foods and cured meat to pickled vegetables and ready-made deli foods. Owing to improvements in the local food-processing sector, Auchan outsources deli items and other ready-to-eat foods to a local processing company with extremely high standards of hygiene. Auchan reported a surge in deli sales during SARS, due in part to customer confidence and trust in the hypermarket's ability to deliver products of superior hygiene and cleanliness.

HRI is on the Rise, especially at the High End

The HRI sector should also see rapid growth over the next two years. While the Sheraton currently is the only five-star international hotel in Suzhou, the Crowne Plaza and Shangri-La are two luxury hotels that plan to open there by 2006. The Sheraton's 415 rooms comprise about one-fifth of Suzhou's current inventory of four- and five-star hotel rooms, estimated at 2,000. This will jump to about 4,000 rooms by 2006. The Sheraton currently enjoys 80% occupancy rates year-around (except during the periods of SARS in spring of 2003 and Avian Influenza in February and March of this year). Sheraton's demographics are: 25% of guests are Chinese (on business); 75% are foreigners, mainly from other parts of Asia, the U.S. and Europe.

Sheraton uses a wide variety of imported food products such as U.S. beef, wine, almonds and vegetables. Future expansion of international luxury hotels implies more opportunities for American food products in Suzhou. In September of this year, Starwood Hotels in eastern China will host a California chef promotion, an activity that creates even more opportunities for American food products.

Tourism growth is linked to preserving the old

Suzhou is keen on becoming a UNESCO World Heritage city. Previous efforts have failed, despite the numerous gardens that are on the heritage list. In June of this year Suzhou will host the UNESCO/World Heritage Commission meeting. This event is yet another force fueling the upgrading of the city's infrastructure, tourism industry, and HRI sector. The UNESCO meeting will no doubt serve as a platform for the city to showcase the strides it has made so far in preserving the old with a view of expanding future use.